

Information on Washington's Tax Structure



Nonprofit Organizations

This brochure provides a basic description of the specific exemptions for nonprofit organizations operating in Washington. It is current at the time of publication, but future changes may invalidate some of this information and not all applications of tax are discussed. The material is intended only for general informational purposes; it does not alter or supersede any administrative regulations or rulings issued by the Department.

EXEMPTIONS FOR NONPROFIT ORGANIZATIONS

Nonprofit organizations, even though they may be exempt from federal taxes, are not generally exempt from taxes in Washington. Unless a nonprofit organization has a specific exemption for either property or excise taxes, it is required to pay taxes in the same manner as other entities. Generally, nonprofit organizations are required to pay the sales or use tax on items of tangible personal property they purchase for their own use and on any construction performed for their organization.

If a nonprofit organization conducts taxable business activities in Washington, it must register to do business within the state by completing a Master Application. The application can be obtained from any Department of Revenue office or by calling our Telephone Information Center at 1-800-647-7706.



PROPERTY TAX

General Requirements

Nonprofit organizations in the state of Washington may be eligible for an exemption from property tax. In most situations, nonprofit ownership is required to qualify for an exemption. In addition, the organization must conduct an activity specifically identified in the exemption laws. The use of the property determines the exemption. Not all nonprofit organizations have a purpose and activity that entitles them to an exemption. Typical organizations receiving property tax exemption are schools, churches, cemeteries, hospitals, social service agencies, character building organizations, nursing homes, homes for the aging, museums, and public meeting halls. Nonprofit organizations engaged in artistic performances for the general public, including production of musical, dance, artistic, dramatic and literary works, as well as art, scientific and historical collections, are also exempt from the property tax on property actually used for these purposes.



Generally, labor unions or fraternal organizations are not eligible for an exemption, *unless* they are using their property for an activity exempted by law. For example, a training facility operated by a labor union **could** qualify for an exemption as a school.

The law provides an exemption from the following taxes:

- ◆ **Personal Property Tax** — assessed on movable items such as furniture and equipment. It also includes a privately owned building located on land owned by a public entity. In some circumstances, a mobile home may be classified as personal property.
- ◆ **Real Property Tax** — assessed on land and buildings. Exemptions do not include special assessments such as sewer, water, street improvements, and surface water management.
- ◆ **Leasehold Excise Tax** — in lieu of property tax paid by organizations or individuals using publicly owned property which is exempt from property tax.

The Application Process

Filing an Application. Organizations must file an application with the Property Tax Division of the Department of Revenue. Applications are available from the Washington State Department of Revenue's Property Tax Division or any county assessor's office.

The application must include verification of nonprofit status, bylaws, an accurate map or site plan that will identify all improvements by dimension, and all filing fees. Nonprofit status may be evidenced by Articles of Incorporation or a determination letter from the Internal Revenue Service approving exempt status with the federal government. Incorporated applicants must be currently registered with the Washington Secretary of State's office and provide a copy of their Articles of Incorporation.

Filing Fee. A filing fee of \$35 is required with all applications for exemption.

Filing date. The deadline for filing an application is March 31 each year, or within 60 days from acquiring the property and converting it to an exempt activity.



An application may be filed for a retroactive exemption as long as it is filed within three years of the date the taxes were paid. A retroactive application will be subject to late filing penalties.

Late Filing Penalty. Applications filed after the deadline are subject to a late filing penalty. The penalty is computed at \$10 per month, or any portion of a month. For example: A nonprofit organization purchases a piece of property on June 15. The organization has until August 14 (60 days) to file their application before owing a late filing penalty. If the application is submitted on August 15 or any later day in the month of August, the penalty is \$10.00. If the application is submitted on September 1, then the penalty increases to \$20.00.

If you have a question on how the late filing penalty is computed, please contact our Exempt Property Tax Section (see page 5).

Effective Date. The taxes exempted will be for the year following the year the property qualified for exemption. For example, property qualifying for exemption in 2002 will be exempt for taxes payable in 2003. Taxes owed in the year of purchase, or the year the property is converted to an exempt use, cannot be exempted.

Renewing the Exemption. The exemption must be renewed by March 31 each year. Once an exemption is established, the Department of Revenue mails a renewal form to each applicant. The form is mailed in January each year and contains a description of the property exempted the prior year. Each organization must verify that

the name and address information is correct and that all of their exempt property is included on the form. The form must be signed, certifying that the exempt use of the property has not changed. Any changes in use or mailing address must be reported to the Department. An annual renewal fee of \$8.75 is required.

The renewal form cannot be used to add property to an existing exemption. Organizations wanting to add previously taxed property to an existing exemption must use a new application.

Jeopardizing the Exemption

Washington's laws and rules restrict the manner in which property qualifying for exemption may be used. Generally, commercial activities cannot be conducted on the property. For example, if a nonprofit church receives a property tax exemption, the portion of the church which is used to sell books will not be exempt because it is used for a commercial activity. The property will be placed on the tax rolls if nonexempt activities are conducted on the property, and taxes will be due from the date the nonexempt activity begins. If the nonexempt activity ceases, a new application form must be filed to reinstate the exemption. The exemption will be effective in the year following the year the property is returned to an exempt activity.

Organizations must report when the manner of exempt use changes or is discontinued.

Some of the most common reasons for losing an exemption include:

- ◆ Use of the property by unqualified organizations or individuals for monetary gain, regardless of whether a fee is charged.

A **qualified organization** is one that would qualify for exemption if they owned the property and used it for an exempt purpose.

- ◆ Rent charged in excess of the organization's operation and maintenance expenses.

The amount of rent charged to qualified organizations may not exceed the amount it costs the organization to operate and maintain the exempted portion of property for the time or period rented or leased. **Donations** made for the use of an organization's exempt property are viewed as rent.

- ◆ Commercial use of exempt property. Fund-raising activities conducted by nonprofit organizations are not usually considered commercial use. Further information about fund-raising activities may be obtained by contacting the Exempt Property Section.
- ◆ Ceasing to use the property for an exempt activity.
- ◆ Transfer of ownership of the property. Exemptions are granted to legal owners. Therefore, when title is transferred to another entity, the new owner must file an application for exemption.

Tax Rollback

Most exempt organizations are subject to a property tax rollback when they stop using their property for an exempt activity or sell it. Taxes plus interest, may be assessed for the current year plus the three previous years. There are several exceptions to this rule. Please contact the Exempt Property Section for more information.

BUSINESS AND OCCUPATION (B&O) AND RETAIL SALES/USE TAXES

Fund-raising Exemptions

Qualifying nonprofit organizations conducting periodic fund-raising activities, which do not

constitute the operation of a regular place of business, are exempt from the Business and Occupation (B&O) tax and the requirement to collect sales tax.

Fund-raising activities include directly soliciting money or other property, or selling goods or services to further the nonprofit organization's goals. It does not include a regular place of business with regular hours such as a bookstore, thrift shop, restaurant or similar business.

For the purpose of the fund-raising exemption, the term "nonprofit organization" means the following:

- 1) An organization exempt from federal tax under Section 501 (c)(3), (4), or (10) of the federal internal revenue code; or
- 2) A nonprofit organization that would qualify under number one above except that it is not organized as a nonprofit corporation; or
- 3) A nonprofit organization meeting all of the following criteria: a) members, stockholders, officers, directors, or trustees of the organization do not receive any part of the organization's gross income, except as payment for services rendered, b) compensation received by any person for services rendered does not exceed a reasonable amount, and c) activities of the organization do not include a substantial amount of political activity.

The following services also qualify as exempt activities:

- ◆ **Artistic or Cultural Organizations:** Income derived from conducting any business activities as a nonprofit artistic or cultural organization (defined in Washington Administrative Code 458-20-249) is not subject to the business and occupation tax.
- ◆ **Child Care Resource and Referral:** Income received by nonprofit organizations for providing child care resource and referral services is not subject to the business and occupation tax.



- ◆ **Emergency Lodging:** The charge made for furnishing emergency lodging to homeless persons purchased via a shelter voucher program administered by cities, towns and counties or private organizations that provide emergency food and shelter services is exempt from the sales tax, the convention and trade center tax, and the special hotel/motel taxes.



- ◆ **Sheltered Workshops:** The gross income received by nonprofit organizations from the business activities of sheltered workshops is exempt from the business and occupation tax. "Sheltered workshops" mean the performance of business activities of any kind on or off the premises of such nonprofit organizations which are performed for the primary purpose of:
 - 1) Providing gainful employment or rehabilitation services to the handicapped as an interim step in the rehabilitation process for those who cannot be readily absorbed in the competitive labor market or during such time as employment opportunities for them in the competitive labor market do not exist; or
 - 2) Providing evaluation and work adjustment services for handicapped individuals.

Using the Exemptions

Qualified nonprofit organizations making purchases for resale for tax exempt fund-raising purposes must provide the vendor with a resale certificate. Organizations not otherwise required to register with the Department of Revenue should indicate on the resale certificate that they are a qualified nonprofit organization and the items will be resold at an exempt nonprofit fund-raiser.

Registration

Amounts received for activities that are specifically exempt do not need to be reported to the Department of Revenue. Unless the nonprofit organization is exempt on all of its income, it is required to register with the Department of Revenue to receive either a temporary or a permanent Unified Business Identifier (UBI) number. Once registered with the Department, the business will receive tax returns called Combined Excise Tax Returns for the period(s) of operation.

For assistance in determining whether your organization should be registered or for help completing the return, please contact our Telephone Information Center at 1-800-647-7706. Teletype (TTY) users please call 1-800-451-7985.

FOR MORE INFORMATION

For answers to specific questions about the property tax exemption for nonprofit organizations, please contact:

Exempt Property Section
Washington State Department of Revenue
Post Office Box 47471
Olympia, Washington 98504-7471
FAX (360) 586-7602
E-mail: kevinti@dor.wa.gov

Or call (360) 570-5871 or 1-800-451-7985 (TTY).

If you have questions about the business and occupation or sales/use tax exemptions, please contact your local Department of Revenue office or the Telephone Information Center. Their locations and telephone numbers are shown on the last page of this publication, or you may write to:

Taxpayer Information and Education
Washington State Department of Revenue
Post Office Box 47478
Olympia, Washington 98504-7478
FAX (360) 486-2159

PUBLICATIONS AND RULES

Following are a few of the publications, laws, and rules related to nonprofit organization exemptions.

Publications

- ◆ Business Tax Guide
- ◆ Special Notice - Important Changes for Non-profit Organizations and Local Governments (June 16, 1998)
- ◆ Temporary Business Registration

Laws and Rules

- ◆ Chapter 82.04 Revised Code of Washington (RCW) - Business and Occupation Tax
- ◆ Chapter 82.08 RCW - Retail Sales Tax
- ◆ Chapter 82.12 RCW - Use Tax
- ◆ Chapter 84.36 RCW - Exemptions (Property Tax)
- ◆ Chapter 458-16 Washington Administrative Code (WAC) - Property Tax - Exemptions
- ◆ Chapter 458-16A WAC - Property Tax - Exemptions
- ◆ WAC 458-20-249 - Artistic or cultural organizations

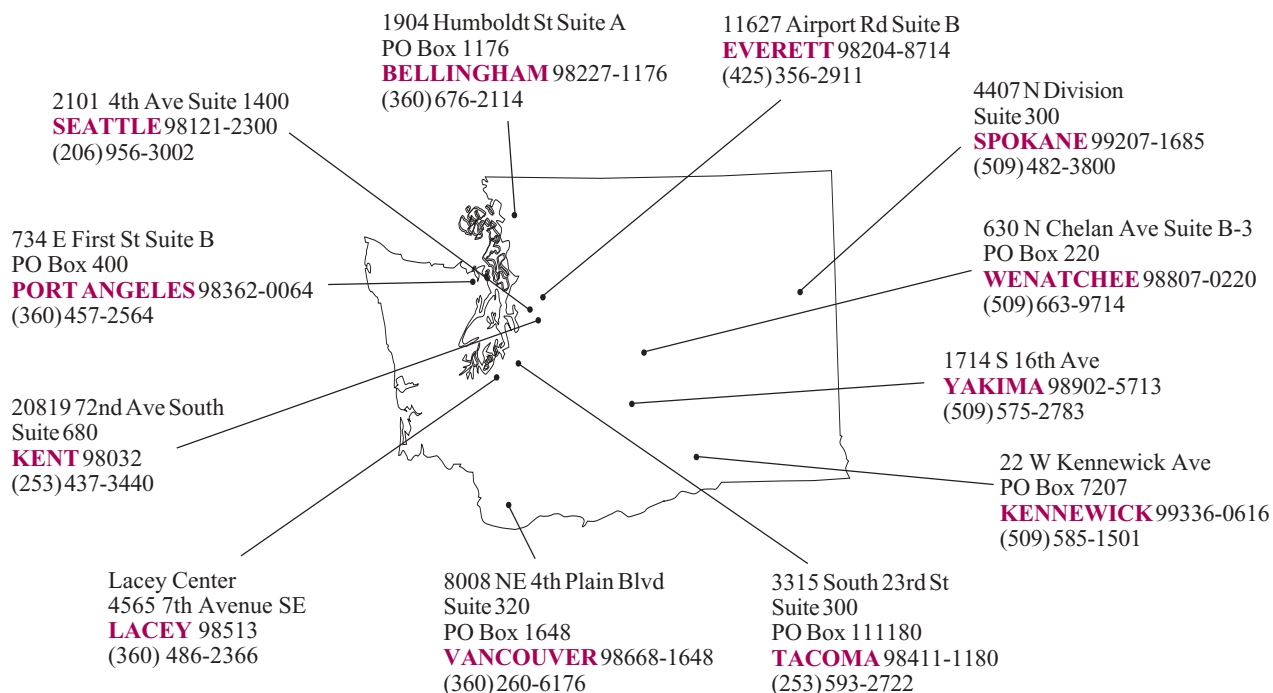
Many other administrative rules are available for specific activities and businesses. The Department of Revenue will provide copies of specific rules and laws, upon request. Please call our Telephone Information Center at 1-800-647-7706 for this service.

Department of Revenue Taxpayer Assistance



<http://dor.wa.gov>

Field Office Locations



Telephone Information Center
1-800-647-7706

To inquire about the availability of this publication in an alternate format for the visually impaired, please call (360) 486-2342. Teletype (TTY) users please call 1-800-451-7985.



Serving the People of Washington

Prepared by the Taxpayer Services Division

Printed on recycled paper

FS0013 01/02